



**House Appropriations Committee
Testimony on the Governor's Budget Recommendations
January 15, 2009
Marcia Nielsen, PhD, MPH, Executive Director**

Thank you for inviting me to share an initial look at the FY 2009 and FY 2010 Governor's budget recommendations for the Kansas Health Policy Authority (KHPA). The KHPA Board has expressed a sincere commitment to work with policymakers to address the difficult financial situation facing our state. The Board and staff stand ready to work with the legislature and the Governor in a collaborative fashion.

KHPA administers the medical portions of Medicaid, the State Children's Health Insurance Program (SCHIP), HealthWave, the State Employee Health Plan and the State Self-Insurance Fund (SSIF), which provides workers compensation coverage for state employees. Our public insurance programs – Medicaid, SCHIP – provided medical coverage to more than 300,000 people last month (December). That includes more than 125,000 infants and children and nearly 88,000 elderly and disabled Kansans. The agency is also charged with gathering and compiling a wide array of Kansas health-related data that is used to guide policy development and inform the public. Certain Medicaid-funded long-term care services, including nursing facilities and Home and Community Based Services (HCBS) are managed on a day-to-day basis by the Kansas Department of Aging (KDOA) and the Kansas Department of Social Rehabilitation Services (SRS). These agencies also set policy for the Medicaid programs under their jurisdictions.

The FY 2009 Governor's Recommendation for KHPA is \$1.8 billion, including \$503.2 million from the State General Fund. Excluding Medicaid, HealthWave, and other assistance programs, the Governor's recommendation for program administration totals \$88.0 million, including \$23.2 million from the State General Fund. The recommendation reflects a 6.6% reduction in administrative spending compared to the KHPA approved budget. Some of those reductions were made in the fall to meet the budget restrictions imposed during the budget development process as requested by the Governor. The Governor's budget recommends \$11.2 million in additional reductions to FY 2009 State General Fund expenditures.

For FY 2010, the Governor recommends \$1.9 billion, including \$515.0 million from the State General Fund. For program administration, the budget recommends \$82.6 million, including \$22.3 million from the State General Fund. This is a 12.3% reduction compared to the approved FY 2009 administration budget.

These reductions are described in the table below:

Rm. 900-N, Landon Building, 900 SW Jackson Street, Topeka, KS 66612-1220
www.khpa.ks.gov

Medicaid and HealthWave:
Phone: 785-296-3981
Fax: 785-296-4813

State Employee Health Plan:
Phone: 785-368-6361
Fax: 785-368-7180

State Self Insurance Fund:
Phone: 785-296-2364
Fax: 785-296-6995

Selected Budget Reduction Items in Governor's Budget

| | FY 2009 | | FY 2010 | |
|--|-------------|-------------|-------------|--------------|
| | SGF | All Funds | SGF | All Funds |
| Reduce Contractual Service Expenditures | \$1,111,749 | \$5,734,123 | \$1,321,175 | \$5,525,000 |
| Reduce Salary and Wage expenditures | \$383,595 | \$1,153,866 | \$440,430 | \$1,246,706 |
| Administrative reductions in travel, printing, supplies, communications, equipment replacement | \$67,249 | \$399,000 | \$53,642 | \$359,100 |
| Implement Employer Sponsored Insurance for SCHIP - Supplemental request | \$125,000 | \$250,000 | | |
| Citizenship Paperwork Requirement for SCHIP - Supplemental request | \$280,000 | \$560,000 | | |
| Switch Health Care Access Improvement Fee Fund for State General Fund | \$6,000,000 | | | |
| Switch Medical Programs Fee Fund for State General Fund | \$2,500,000 | | \$5,700,000 | |
| Correct SCHIP expenditures to match caseload estimate | \$689,687 | \$2,518,481 | | |
| Return unspent Children's Initiative Fund for Immunizations | | \$222,123 | | |
| Return unspent State General Fund from Regular Medicaid appropriation | \$997,907 | \$997,907 | | |
| Move Children's Initiative Fund for immunization to KDHE | | | | \$500,000 |
| | | | | |
| Medical Assistance program recommendations and Transformation savings. | | | \$9,500,000 | \$23,900,000 |
| 18 month time limit for Medicaid Enrollment | | | \$6,700,000 | \$6,700,000 |
| Expand Preferred Drug List to include mental health drugs | | | \$800,000 | \$2,000,000 |

I would like to point out two items specifically that were included in the Governor's recommendation that will have substantial impacts on the ability of KHPA to continue meeting its statutory mission. The Governor's budget requires a \$1.2 million reduction in salary and wage expenditures in FY 2009 and FY 2010 compared to the KHPA submitted budget. Those reductions will require KHPA to hold 26 positions vacant during FY 2009 and an additional 9 positions, for a total of 35, vacant during FY 2010. Our submitted budget included an estimate of savings related to turn over of \$604,777 which is equivalent to 11 vacant positions. To meet the salary and wage budget recommended in the Governor's budget, KHPA will have to evaluate whether key programs can continue or if staff will need to be reassigned to cover critical shortages. We are continuing to analyze the impact of the salary recommendation and will consult with the KHPA Board of Directors on additional steps.

The reductions in contractual service expenditures total \$5.7 million in FY 2009 and \$5.5 million in FY 2010. KHPA began notifying contractors of the need to cancel or renegotiate contract terms in November 2009. This was done to meet the preliminary reductions asked for by the Governor. Given that only six months of the fiscal year remain, achieving \$5.7 million in contractual savings will mean harsher reductions this year across the agency to meet budget targets. We will continue the process of evaluating contracts and contractors to reduce planned expenditures for FY 2010.

In addition to the targeted reductions in salaries and contractual services, KHPA has already begun our

administrative belt-tightening, including instituting a hiring freeze; banning out-of-state travel, limiting printing and communications, and restricting staff training. These measures will need to be continued throughout FY 2009 and FY 2010 to meet the Governor's recommended budget targets

The Governor's budget does not recommend eliminating programs for beneficiaries or reducing provider reimbursement.

The Governor's budget did include many of the recommendations derived from the Medicaid Transformation process, and also includes two proposed program changes that the KHPA submitted to the Division of Budget in order to meet our reduced resource budget targets for FY 2010. In FY 2010, the Governor's budget reduces the Medicaid caseload estimate by \$32.6 million, including \$17.1 million from the State General Fund.

The reduced resource packages that were adopted by the Governor include:

- **Expansion of the preferred drug list.** State law currently prohibits management of mental health prescription drugs dispensed under Medicaid. Under this proposal, that prohibition would be rescinded and KHPA will use the newly created Mental Health Prescription Drug (PDL) Advisory Committee to recommend appropriate medically-indicated management of mental health drugs dispensed under the Medicaid program. Over the past three fiscal years mental health drugs have been the highest drug expenditure by class of medications and the most-prescribed drugs by volume. This has led to cost growth in pharmacy services that exceeds growth in other services. Expenditures for mental health drugs increased from the previous fiscal year by more than \$4 million in FY 2007. In addition to the cost growth issue serious concerns about safety have arisen. The KHPA is currently recruiting members for the mental health prescription drug advisory committee and begin development of the Preferred Drug List (PDL). In fiscal year 2010 will continue to expand the PDL and develop criteria for prior authorization of selected drugs. The KHPA proposal would begin using the mental health PDL in January of 2010 with an expected savings of \$2,000,000, including \$800,000 from the State General Fund in FY 2010.
- **Time limited MediKan.** The reduced resource proposal would place a firm "lifetime limit" on the receipt of MediKan benefits with no exceptions or hardship criteria. Also, using Working Healthy as a model, MediKan would be modernized by redirecting a portion of current expenditures to offer a package of services consisting of basic health care and employment services aimed at re-entry into the workforce and achieving self-sufficiency. MediKan currently provides health care coverage to persons with significant impairments, as determined by the Presumptive Medical Disability Team (PMDT), who do not meet the level of disability necessary to receive Medicaid and are unlikely to meet Social Security Disability criteria. However, people eligible for MediKan are required to pursue Social Security benefits as a condition of eligibility. Although a lifetime limit of 24 months currently exists in the MediKan program, the limit can be waived if the individual is still attempting to receive Social Security benefits, creating a "hardship exception." Almost 30% of the current MediKan caseload receives coverage under the hardship exception. The KHPA proposal estimated that applying the time limit and developing the modified services package would result in savings of \$1.5 million from the State General Fund during FY 2010. The Governor increased the savings estimate to \$6.7 million from the State General Fund. The Governor's recommendation includes using \$5.0 million of the program savings to provide limited health care and workplace training services.

In addition to these reductions submitted in the budget, KHPA was asked to suggest additional ways of reducing Medicaid expenditures. KHPA has engaged in the process of reorganizing and refocusing the agency to expand capacity for data analysis and management, and to adopt data-driven processes in the management of its programs. For the past two years the Medicaid program has undertaken a new and increasingly comprehensive effort to utilize available data and program management experience to review each major component of the program. In 2008 KHPA completed fourteen program reviews as the first step in the KHPA Medicaid

Transformation Plan. The Medicaid Transformation and program reviews identified several administrative changes and efficiencies that could be implemented in the Medicaid program without reducing the number of people served or providers of Medicaid services. These items include

| | FY 2010 | |
|--|----------------|------------------|
| | SGF | All Funds |
| Pharmacy Changes | \$4,400,000 | \$11,000,000 |
| Cost reimbursement for physician office administered drugs | | |
| Improve cost avoidance and third party liability in pharmacy claims | | |
| Accelerate review of generic drug price limits | | |
| Ensure Medicare pays its share of hospital charges for beneficiaries with dual eligibility | \$4,000,000 | \$10,000,000 |
| Home Health Reforms | \$200,000 | \$500,000 |
| Durable Medical Equipment pricing reforms | \$160,000 | \$400,000 |
| Transportation Brokerage | \$200,000 | \$500,000 |
| Tighten payment rules for Hospice Services | \$300,000 | \$750,000 |
| Automate and expand pharmacy prior authorization | \$300,000 | \$750,000 |
| Total | \$9,560,000 | \$23,900,000 |

These changes to Medicaid total \$23.9 million in savings, including \$9.6 million from the State General Fund that are part of the Governor's recommended budget for FY 2010.

We continue to analyze the Governor's recommendation regarding a seven pay period moratorium on employer contributions to the State Employees Health Benefits Plan. We will be communicating our analysis of the programmatic impact of the Medicaid transformation and cost savings proposals to stakeholders in the coming weeks.